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TAGS: [ENRG](#) [ECON](#) [PGOV](#) [EPET](#) [AU](#)

SUBJECT: OMV Buys Stake in Northern Iraq Gas Exploration/  
Production, Aims To Feed Nabucco Pipeline after 015

Sensitive but Unclassified - Protect Accordingly.

¶1. (U) SUMMARY: Austria's OMV has bought a 10% stake in two gas fields in Iraq's Kurdish region, which it hopes will become major supplier to the Nabucco pipeline sometime after 2015. While confident of its legal position, OMV recognizes the absence of a national hydrocarbon law is problematic, but is hopeful for a resolution well before the fields (and Nabucco) come on-line. END SUMMARY.

¶2. (U) On May 17, Austrian oil/gas national OMV announced the purchase of a 10% stake in Pearl Petroleum, a subsidiary of UAE-based companies "Crescent Petroleum" and "Dana Gas" which hold rights to two gas-condensate fields near Kirkuk in Iraq's Kurdish region (Kurdistan Regional Government/KRG). OMV will pay \$350 million for the stake initially, with further payments contingent on better reserve data. Based on current assessments, OMV hopes annual production will reach 30 billion cubic meters (bcm) around 2015. NOTE: Of the two fields, one (Khor Mor) is already producing gas while the other (Chemchemal) is still being assessed.

¶3. (U) Nabucco Company CEO Reinhard Mitschek (who is closely tied to OMV) said publicly that Iraqi/KRG gas exports could account for approximately one third of the Nabucco pipeline's capacity (31 bcm/year). Mitschek said that whereas the consortium hopes to bring Nabucco online in 2014, the timeline for linking Iraqi/KRG gas fields to Nabucco remains undecided.

¶4. (SBU) An Embassy representative spoke briefly with Peter Seifert of OMV's Exploration & Production (E&P) Department. Seifert declined to speculate about gas volumes for Nabucco but said the new fields should provide a "significant share" of the pipeline's gas at some point after 2015. The concession contract with KRG authorities stipulates that domestic and regional markets have priority in gas sales, Seifert noted, but OMV estimates that up to two-thirds could still be exported from Iraq with Turkish customers taking half of the exported volume. OMV and its UAE partners have agreed that the ultimate price for OMV's 10% stake is contingent on gas discoveries beyond current reserve estimates.

¶5. (SBU) The original E&P licenses for the two fields were issued by KRG authorities, a known point of contention within Iraq. Seifert maintains that OMV's lawyers and outside counsel thoroughly examined the legal situation and surmise that the KRG is entitled to grant E&P licenses to foreign companies under Iraq's federal constitution. OMV is well aware that Iraq's federal government did not endorse the original licenses, and OMV does not rule out further sanctions such as those as imposed in February 2008 after OMV announced two other production-sharing agreements with the KRG. But OMV sees limited ability for Iraqi federal authorities to "punish" OMV in the near term by blocking its oil exports, since OMV has limited interest in Iraq's oil. Seifert is hoping for an Iraqi domestic solution in the near future -- the adoption of a hydrocarbon law or a similar legal act -- since many in the region see Iraq's Federal Oil Ministry as "isolated" on this issue.

